



COUNTY OF PLACER

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To the Board of Supervisors and Citizens of Placer County:

The comprehensive annual financial report (CAFR) of the County of Placer, California (County) for the fiscal year ended June 30, 2006, is hereby submitted in accordance with Section 25253 of the Government Code of the State of California. This statute requires that the County publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in conformance with auditing standards generally accepted in the United States of America by a firm of certified public accountants.

This report consists of management's representations concerning the finances of the County. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the County's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the costs of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, the information contained herein is complete and reliable in all material respects.

The County's financial statements have been audited by Gilbert Associates, Inc., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2006 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's basic financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County is part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on

the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements involving the administration of federal awards. These reports are available in the County's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

The Financial Report

The CAFR consists of three main sections:

- The Introductory Section is intended to help readers get acquainted with the County, its organizational structure, the scope of its services and the legal context.
- The Financial Section presents the basic financial statements, which include the government-wide financial statements, the fund financial statements, the notes to the basic financial statements, management's discussion and analysis, and the independent auditor's report.
- The Statistical Section presents multi-year statistics on demographic and other data of interest to the reader.

Profile of the Government

The County is located 80 miles northeast of San Francisco, and Auburn, the County seat, is located 120 miles southwest of Reno. The County encompasses over 1,431 square miles of land and water and serves a population of 316,500. There are six incorporated cities and towns located within the County: Auburn, Colfax, Lincoln, Loomis, Rocklin and Roseville. The Sierra Nevada Mountains, home to the 1960 Winter Olympics and the largest concentration of world class ski resorts in the Western United States, provide an abundance of year-round recreational and cultural opportunities to the residents of the County.

The County provides a wide range of services to its residents, including public protection services, medical and health services, public assistance programs, sanitation services, the construction and maintenance of roads and infrastructure, environmental services, parks, libraries, and a variety of other general governmental services. Every resident of the County, directly or indirectly, benefits from these services. Most services performed by the County are provided for all residents, regardless of whether those residents live in cities or unincorporated areas. A major challenge to the County in future years will be the maintenance of these services to the extent feasible within the County's financial resources.

The financial reporting entity (County of Placer) includes all the funds of the primary government (the County of Placer as legally defined), as well as all of its component units. Blended component units, although legally separate entities, are considered to be part of the primary government's operations for financial reporting purposes, as required by GAAP. The following component units

are blended: County Service Areas, Sewer Maintenance Districts, Newcastle and Penryn Lighting Districts, Redevelopment Agency of Placer County, North Lake Tahoe Public Financing Authority, Placer County Public Financing Authority, Gold Country Settlement Funding Corporation and In-Home Support Services Public Authority. The First 5 Placer Children and Families Commission is included in this report as a discretely presented component unit.

In accordance with the provisions of California Government Code Sections 29000 through 29143 inclusive, commonly known as the County Budget Act, the County prepares and adopts a budget for each fiscal year. Activities of the General Fund, Special Revenue Funds, Capital Projects and Debt Service Funds are included in the annual budget. The legal level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the departmental level except for capital assets, which are controlled at the line item level. The budgeted expenditures become law through the passage of an Appropriation Resolution. This Resolution constitutes the authorized spending threshold for the fiscal year, and cannot be exceeded except by subsequent amendment of the budget by the Board of Supervisors. In the governmental funds, an encumbrance system is used to ensure effective budgetary control and to enhance cash planning and control. Encumbrances outstanding at June 30 are reported as reservations of fund balance.

Factors Affecting Financial Condition

Placer County Economy: The County continues to be one of the fastest growing counties in California. There are indications that the rate of growth is beginning to slow but County management expects it to remain positive. The following highlights are evidence of the County's relative economic prosperity:

- The County's unemployment rate decreased from 4.2% to 4.1%.
- Over 2,500 jobs were created in the County in FY 05-06.
- Per capita income is over \$39,000. Placer County ranked 10th in the State.
- Retail sales increased 5% to \$6.6 billion.
- Assessed values of residential real property increased 16% to \$36.7 billion. Assessed values for non-residential real property increased 10% to \$8.4 billion.
- The County has the lowest percentage of persons below the poverty level in the State.
- The County's rapid growth is expected to continue into the next decade. The population is expected to be over 364,000 by 2010, an increase of 15% over the current population.

State Government: The County is a political subdivision of the State of California and as such, its government is subject to State subventions and regulations. Therefore, the County's financial health is tied closely to the financial condition of the State government. The County cannot predict whether the State will encounter budgetary difficulties in the current or future fiscal years. The County also cannot predict the impact future budgets will have on the County's finances and operations. Current

and future State budgets will be affected by national and State economic conditions and other factors outside the County's control.

Intergovernmental revenues account for nearly half (41%) of all governmental funds' revenue. Reductions of revenues as a result of a state deficit could have a significant impact on the County.

Long-term Financial Plans:

The County's single most significant source of discretionary revenue, secured property taxes, grew by 13% in FY 05-06. Secured property taxes are projected to continue to be strong in FY 06-07. However, a slowdown in 2006 new construction activity, increased interest rates and a decline in residential resale activity indicates that next year's assessment roll increase will return to a more modest level.

The County is committed to building a strategic reserve equal to 5% of the annual operating budget, which in FY 06-07 would be \$17.7 million. This reserve would be used to maintain services during a slow economy when the County's revenues have declined or during an emergency. As of June 30, 2006, the County has set aside \$16.2 million.

Each year, the County designates an amount equal to the annual depreciation expense. Accumulated funds are to be used in accordance with the long-term Capital Financing Plan for facility replacement and construction. As of June 30, 2006, \$18 million has been designated. Significant projects expected nearing completion in FY 05-06 include construction of the South Placer Criminal Justice Center, the Auburn Justice Center and the Land Development Building. Projects to be undertaken in FY 06-07 include the Children's Emergency Shelter, Burton Creek Justice Center and Colfax Library.

Land development and the resulting population growth continue at unprecedented levels. This growth takes place amidst county efforts to achieve a balance between development and environmental concerns. The Community Development/Resource Agency (CDRA) was formed in March 2005 with the intent to improve processes and functions related to land development. In FY 05-06, the County continued to refine CDRA to provide a coordinated response to all development projects, improve environmental coordination and tracking, and promote process improvement.

Cash Management Policies and Procedures

Except for amounts held with trustees under bond indenture or other restrictive agreements, the County's cash and investments are invested by the County Treasurer. The Treasury Oversight Committee has regulatory oversight for all monies deposited in the Treasury Pool. Such amounts are invested in accordance with investment policy guidelines established by the County Treasurer and reviewed by the Board. The objectives of the policy are, in order of priority, safety of principal, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Risk Management

The County is self-insured for unemployment, general liability, worker's compensation, and certain employee health coverages. The County records estimated liabilities for such claims filed or expected to be filed for incidents that have occurred. The self-insured amounts for all types of losses except unemployment and dental and vision coverage are supplemented with insurance policies (refer to Note 12). County officials believe that assets of the Self Insurance Internal Service Fund, together with funds to be provided in the future, will be adequate to meet all of the claims related to these liabilities as they come due.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada awarded the Certificate of Achievement for Excellence in Financial Reporting to the County of Placer for its CAFR for the fiscal year ended June 30, 2005. This is the fifth consecutive year that the County received this award. The Certificate of Achievement is a prestigious award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, the contents of which conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are applying for the Certificate again this year.

The preparation of the CAFR and its timely issuance is the result of a concentrated and dedicated effort by the entire Auditor-Controller staff. I am especially grateful to the members of my staff for their special efforts, particularly Kevin Starkey and Sandra Bozzo. In addition, I would like to thank the Board of Supervisors and the County Executive for their leadership and actions that ensure the general fiscal health and integrity of the County.

Respectfully submitted,



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